

FOREST RENEWAL PROGRAM

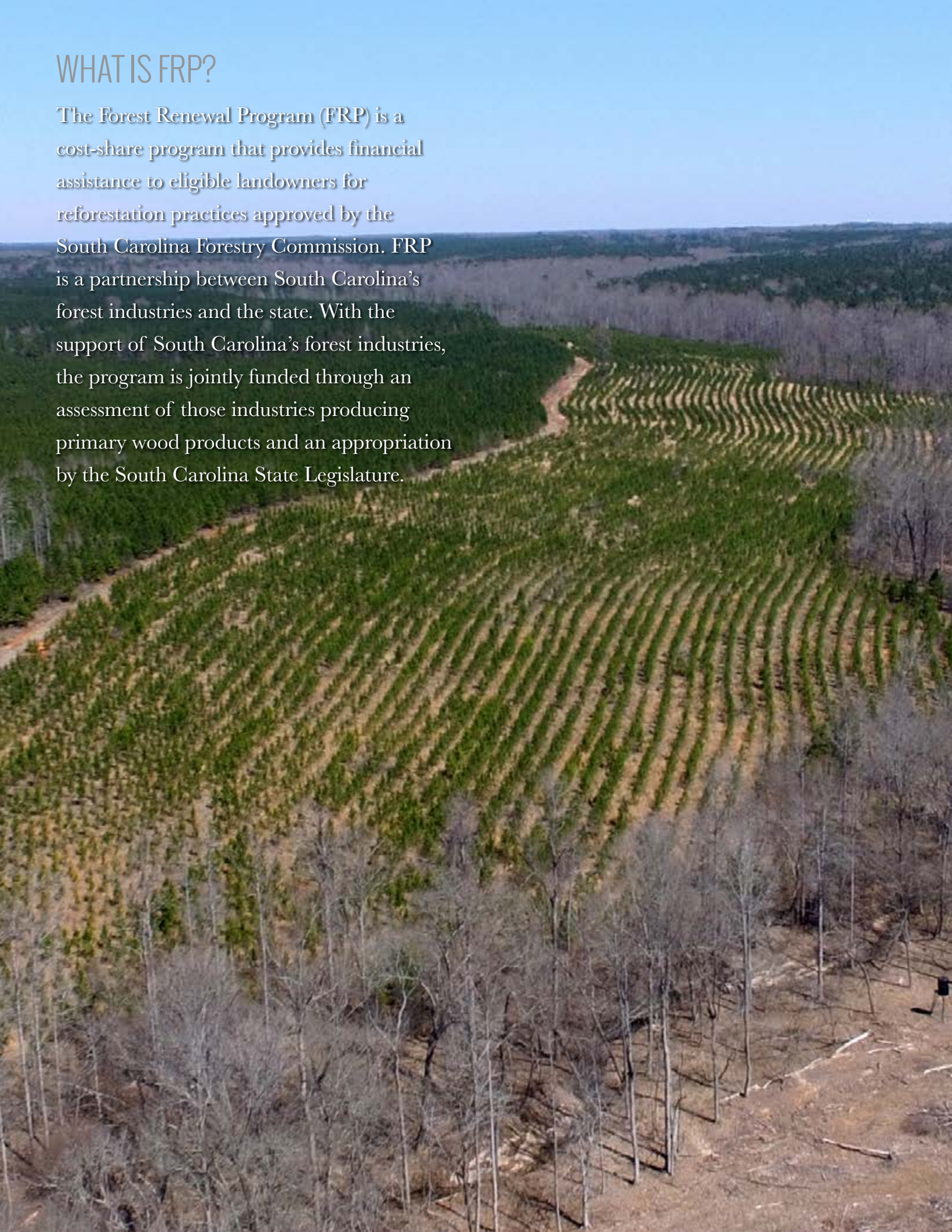
ANNUAL REPORT FY 2016-2017



South Carolina
Forestry Commission

WHAT IS FRP?

The Forest Renewal Program (FRP) is a cost-share program that provides financial assistance to eligible landowners for reforestation practices approved by the South Carolina Forestry Commission. FRP is a partnership between South Carolina's forest industries and the state. With the support of South Carolina's forest industries, the program is jointly funded through an assessment of those industries producing primary wood products and an appropriation by the South Carolina State Legislature.



LETTER FROM THE PROGRAM MANAGER

Someone's sitting in the shade today because someone planted a tree a long time ago.

– Warren Buffett



Scott Phillips, Program Manager

I have always liked this quote. It may be because it speaks of the benefits of long term plans and short term actions; both of which are important to me. Or maybe it's because it is Warren Buffett waxing philosophical about trees, which is pretty cool! Regardless, I found this quote to be fitting as we take a moment to look back on South Carolina's Forest Renewal Program (FRP) in our very first external accomplishment report.

July 1, 2017 marked the beginning of the 35th year of FRP and the productivity of our forests have changed significantly since the program began. When leaders from our forest industry came together to discuss the creation of a state funded cost-share program in the early 1980s the future of our forests were in question. At that time forest industry was SC's third largest manufacturing industry producing over \$2 billion of economic output annually. Projections from the 1980 Forest and Rangeland Resources Assessment indicated that timber supply shortages loomed nationally and an expected demand shift from the west coast to

the southeast would place additional pressure on our state's timber supply. Further, the U.S. Forest Survey (now known as the Forest Inventory and Analysis Program) reported a 20 percent decline in softwood saplings in the 2" – 4" size class in SC, warning of supply shortages within our state.

South Carolina's industrial and public lands were considered to be

functioning at maximum productive capacity given constraints of the time, so the management of private lands came into focus. At the time 73 percent of the state's forestland was privately held and these lands accounted for 65 percent of all timber removals. However, private lands only accounted for 25 percent of reforestation activities. Even more concerning



was that 60 percent of the acres harvested on private lands received no reforestation measures. Over 2 million acres of forestland in SC were listed as non-productive. It was predicted that, unless changes were made, SC would have a timber supply shortage by 2007. Thankfully, our predecessors took action, and programs like FRP were developed to incentivize private investments in forestry and increase the productivity of our forests.

Today, SC's forest industry is still a major driver of our economy. It is our No. 2 manufacturing sector, in terms of jobs and labor income, and No. 1 harvested crop with a total economic impact of \$21 billion for year 2015.

We have more standing wood volume than at any point in recorded history. Our industry is strong, our forests are productive, and the active management of private lands has played a key role in our success.

Cost-share programs, such as FRP, have played a significant role in shaping our forests. Since 1980 more than 1 million acres, 20 percent of all tree planting in SC, have been planted on private lands using cost-share assistance. To date, over 315,000 acres have been reforested using FRP cost-share assistance and more than 7,700 landowners have been assisted.

To ensure the trees planted using FRP cost-share assistance reach

merchantable size, the program requires the reforested areas to be maintained for 10 years or until commercially harvested. The SCFC annually conducts monitoring of all sites that were planted nine years prior to verify compliance, and repayment of cost-share is initiated for any areas that are not in compliance. In our most recent year, 99 percent of the sites monitored were maintained until they were commercially viable.

As part of our inaugural report we wanted to go beyond the numbers and include thoughts or stories from our customers. So we conducted interviews with people from different areas of the supply chain to get their perspective on FRP. The results were quite positive but they also highlighted some areas for program improvement. A primary concern focused on the need to increase program funding and decrease the time landowners wait for cost-share assistance. You will find excerpts from these interviews scattered throughout this report and a section that highlights program improvements we have implemented to address some of the challenges highlighted.

In SC we are very fortunate to have FRP! The impacts of the program have been substantial and could not have been realized without the financial support and program endorsement provided by the forestry industry in our state. However, it is not a time for our industry to sit back and enjoy the shade. There are still trees to be planted! The active management of private lands is still vitally important and FRP is a great tool to incentivize landowners to invest in their forests and our future. I look forward to continuing to work with all members of our forestry supply chain as we work to strengthen South Carolina's Forest Renewal Program for our future.





“If we are only going to have one program, then let’s fund it the best we can.”

– Jimmy LaFrage
Forest Land Management, Inc.

“It is crucial that the timber we harvest today is being replanted, as we are dependent on today’s seedlings to supply our mills for the next 30-plus years.”

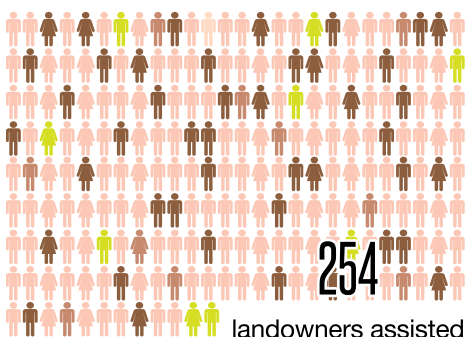
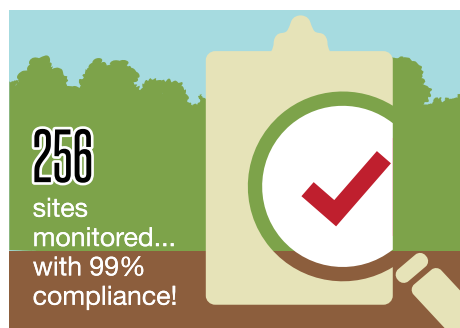
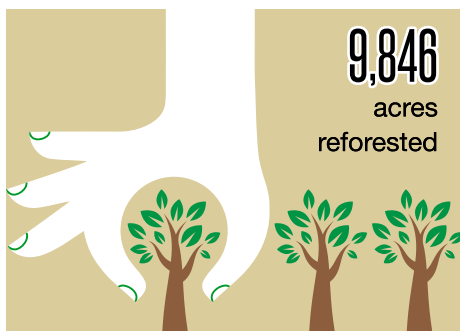
– Davis McGowen
Canfor Southern Pine



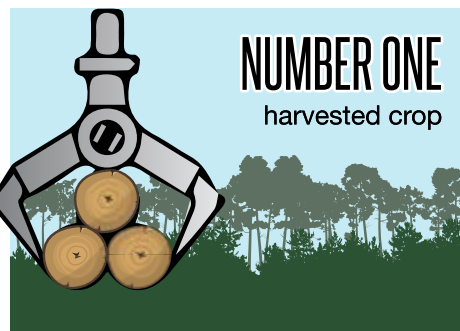
FRP ACCOMPLISHMENTS

THIS FISCAL YEAR

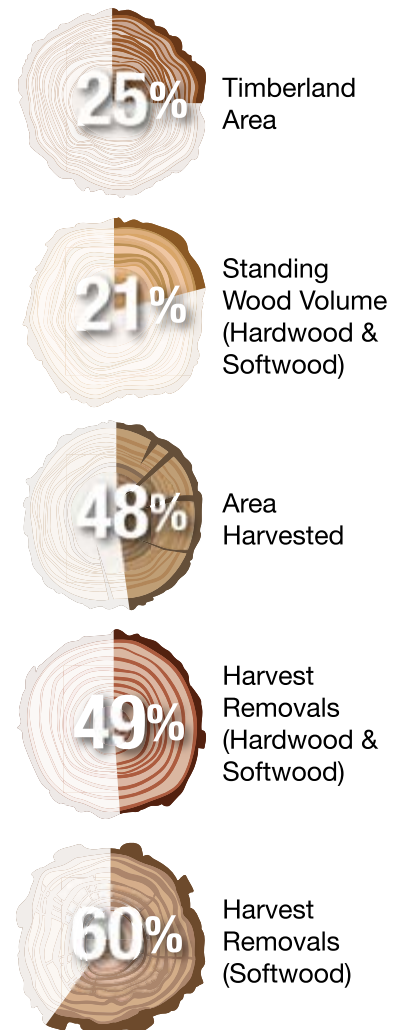
FY2016-17 FRP statistics



SC forestry's overall impact



Pine plantation acres as a percentage of...

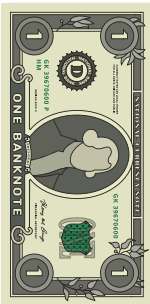


In 1983, 83% of the harvesting in South Carolina was on natural stands. Since that time, the amount of acres of planted stands receiving harvests have increased more than 200%. Planted pine is critical to supplying our forest industry and maintaining the productivity of South Carolina's timberlands.

FRP IMPACT

SINCE PROGRAM INCEPTION

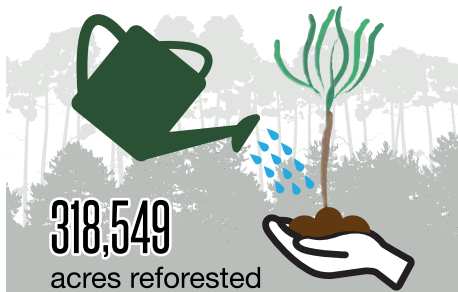
Economic impact



5 TIMES

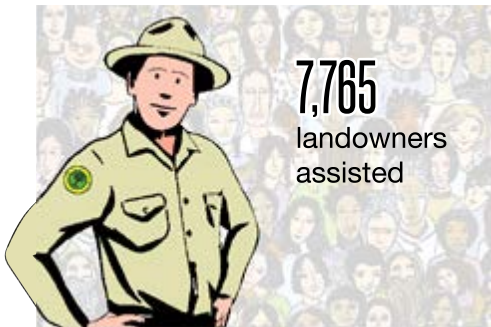
the economic impact
is created for each
dollar invested

Reforestation



318,549
acres reforested

Landowners



7,765

landowners
assisted

Supply

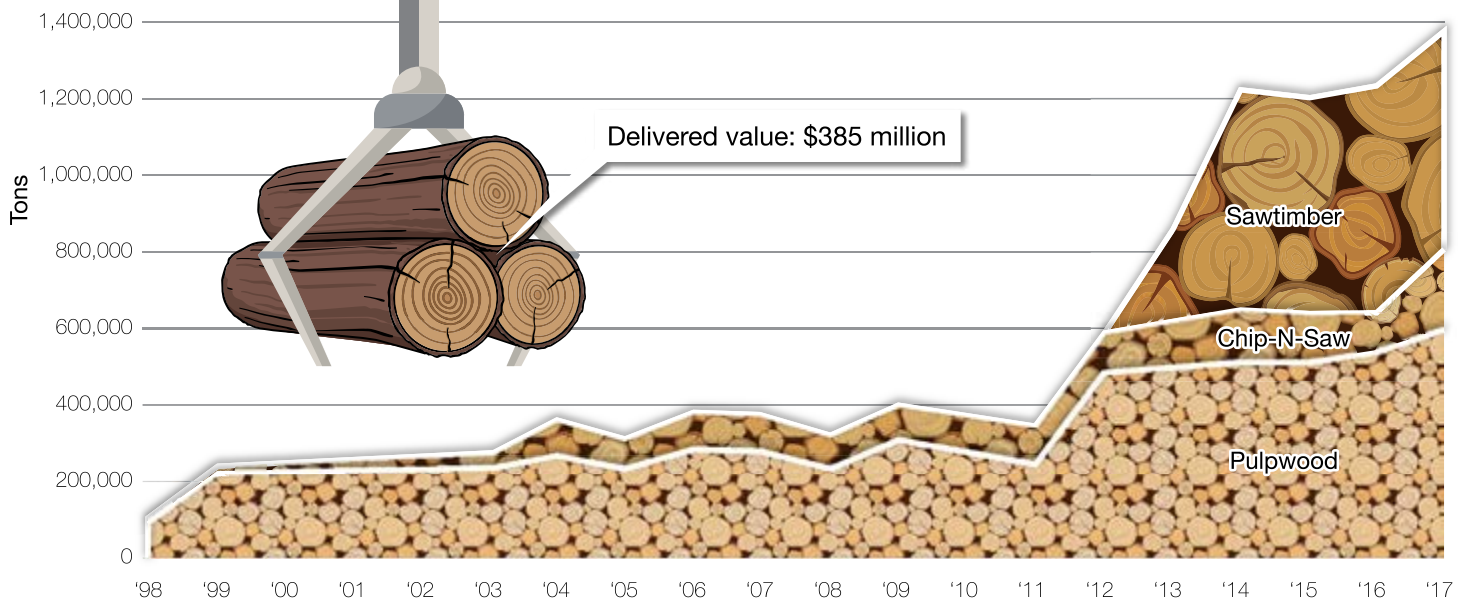


500,000+

tons of wood added
to the annual timber
supply

x 20,000

Estimated harvest from FRP acres



“The technical assistance was invaluable. I couldn’t have done it. I wouldn’t have known what to do.”

– Joanna Angle
*Landowner
Chester County*



“I am a strong advocate for our local foresters and FRP. Without their help, I wouldn’t be close to where I am today in our management program.”

– Randell Ewing
*Landowner
Darlington, Chesterfield counties*



FRP FINANCIAL REPORT

FRP funding

Funding for the forest renewal program comes from two sources:

1. Appropriation from the General Assembly
2. Assessment on primary forest products

The assessment ratio of forest products to appropriated state funds is four to one (4:1). FRP was funded for the first time in 1982 through a \$100,000 state appropriation which permitted an assessment of \$400,000 on primary forest products, and created a \$500,000 Forest Renewal Fund.

The state funding was doubled effective July 1, 1996. This increase permitted an assessment of \$800,000 increasing the program funding to \$1,000,000.

Assessment rates are collected quarterly and based on a flat rate per unit, which varies by product and have not changed since the program's inception. All collections are handled by the SC Department of Revenue, and the funds from the assessment, less

collection costs, deposited in the Forest Renewal Fund which is administered by the SCFC. Collection is halted in the quarter following the full collection of the required amount. Penalties and fees associated with late or improper filing are collected as necessary by the Department of Revenue.

The \$800,000 required assessment is normally reached within half a year. A surplus above and beyond the required amount is collected each year due to the full quarter collection system. This surplus is transferred to the Forest Renewal Fund and held by the SCFC as carry-over funds. The amount collected is based on the appropriation from the General Assembly, the required match from the primary forest products assessment and the carry-forward from the collections of the previous fiscal year.

FRP budget

Table 1 summarizes the initial FRP budgets for the current and prior fiscal years. The budget is adjusted throughout the year based on actual expenditures and unobligated funds generated.

FRP terminology

Hardwood/replant funds: By SCFC procedure, 5 percent of the initial funding available for cost-share is annually earmarked for hardwood regeneration. Once all hardwood project requests are serviced, any remaining funds are used to replant areas where the FRP practices were properly implemented, but seedling mortality is excessive.

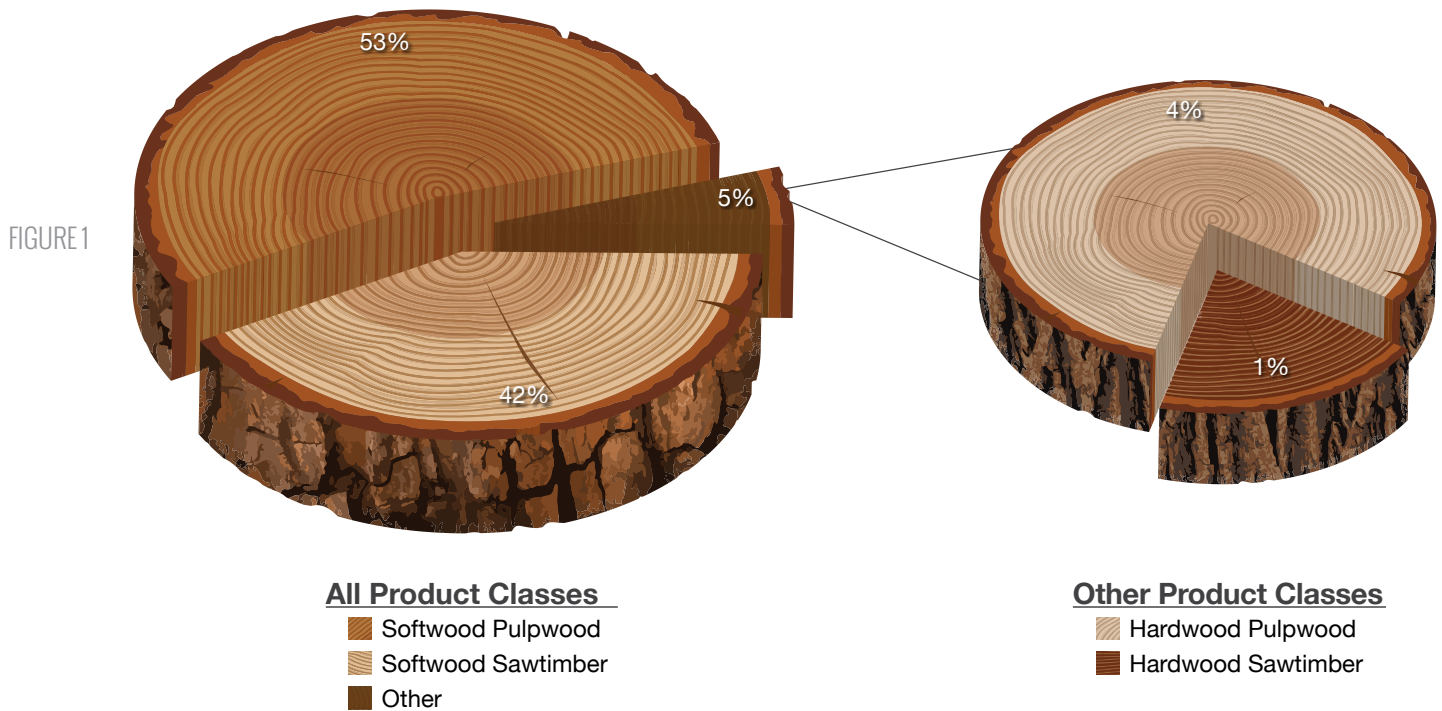
Unobligated funds: Funds that are not currently committed to a landowner project due to the funds being insufficient to cover the next eligible landowner project. These funds are generated primarily through slippage or application cancellations.

Slippage: The difference in funds allocated to a landowner project and the funds actually earned when the project is completed.

FRP budgets for 2016, 2017 and 2018 fiscal years

		FY2016	FY2017	FY2018
		\$200,000	\$200,000	\$200,000
TABLE 1	State Appropriation			
	Forest Industry Match			
	Surplus Forest Industry Collections from Prior Year	\$161,570	\$279,033	\$370,006
	Forestry Industry Collections Required for Match	\$638,430	\$520,967	\$429,994
	Subtract SCFC Administrative Costs	(\$40,000)	(\$40,000)	(\$40,000)
	Subtract SC DOR Administrative Costs	(\$10,000)	(\$10,000)	(\$10,000)
	Hardwood/Replant Funds Held in Reserve	(\$47,500)	(\$47,500)	(\$47,500)
	Unobligated Funds from Prior Year	\$10,730	\$8,873	\$9,352
	Initial Funding Available for Cost Share	\$913,230	\$911,373	\$910,852

FRP assessment collections by product class



The vast majority (95 percent) of assessments paid by forest industry to support FRP come from mills that utilize softwood products (see Figure 1). This matches a long term trend for assessment collections and is an indicator that the assessment rate structure does a good job of collecting the required match from primary mills that receive the most benefit from the FRP program since the majority of FRP cost-share is used for reforestation of pine species.



“Increasing the forest resource has allowed for the expansion of the forest products industry, providing more market opportunities for landowners and work for those employed in the various aspects of the industry.”

– Ken Leach
Colombo Energy, Inc.

“In more cases
than not, this is
the mechanism
that triggers the
landowners to reforest
their property.”

– Charles Segars
Johnson Company, Inc.



“They have provided me
with financial support
and technical support
to plant trees. Without
this, it would have never
happened.”

– Cleveland Washington
*Landowner
Allendale County*



FRP CHALLENGES

Addressing the FRP waiting list

A significant concern of many FRP stakeholders is the amount of time that landowners must wait between submitting their application and receiving the notification of funding so that they can begin the reforestation project. This concern is so prevalent that during our interviews with stakeholders for this report almost every person interviewed mentioned the wait for funding as concern and opportunity for improvement. Given this level of concern we wanted to give a little background on the issue and highlight some of the changes made within FRP over the last several years to address this issue.

In 2008, an analysis of the FRP database was conducted to establish metrics associated with landowner participation. A major finding from the analysis is that the demand for FRP cost-share assistance consistently exceeds the available program funding to assist landowners. This finding has been confirmed through several follow-up analyses conducted since that time, and the effects can still be seen today when we evaluate the number of unfunded cost-share projects remaining at the end of the initial funding cycle (see Figure 2). High levels of demand for the cost-share program, which operates on a first-come, first-served basis and does not limit the amount of time an application is valid, creates a backlog or waiting list of unfunded applications

(see Figure 3). The 2008 analysis found that the time until funding varied substantially among applicants based on the county where the property was located. The time between submitting the FRP application and notification of funding ranged from less than one year in counties with very low demand for assistance to a maximum of seven years in counties with high demand. The average landowner waited 26 months for their FRP application to be funded.

Since that first analysis, we have implemented several changes to FRP aimed at streamlining the program and making more efficient use of the program funding. Notable changes include:

1. Streamlined initial allocation procedures to allow unused funds to flow from counties of lower demand to counties of higher demand while retaining individual county initial allocation pools;

2. Modified slippage procedures to eliminate individual county waiting lists and apply unobligated funds to the oldest application on record in the state;
3. Changed cost-share rates from a fixed rate of approximately 40 percent of statewide average cost to a variable rate based on 40 percent of the actual cost to implement the practice not to exceed a maximum rate established for each practice;
4. Improved communications with landowners and consulting foresters to ensure program funds are used in a timely manner or are released so they can be used by another applicant.

These program changes along with less FRP funding being used for SCFC operations and external factors such as recent increases in cost-share substitutes (e.g. Emergency Forest Restoration Program and EQIP – Longleaf Initiative) have resulted in significant



reductions in the time required to fund FRP applicants even though the demand for cost-share has remained relatively constant. For FY2017 the average landowner waited 403 days, just over 13 months, for funding. This is a 13-month decrease compared to the average wait in 2008. The maximum wait, between application and funding, for any landowner in FY2017 was 598 days, just under 20 months. This is more than five years less than the maximum wait back in 2008 and six months less than the average wait in that same year! That said, the time that landowners must wait

for cost-share funding is still an issue we must watch carefully due to the potential effects that waiting to reforest can have on the productivity of our forests. Even with an average wait of just 13 months, more than 60 percent of FRP applicants are incurring an opportunity cost equivalent to one year’s growth waiting for FRP cost-share assistance.

Current status of FRP waiting list

As of June 30, 2017, the unfunded applications from FY2017 included 368 landowner projects requesting \$1,833,313 of cost-share funding. As

part of FY2018 initial funding, 208 of these projects were allocated cost-share funds totaling \$910,502. After concluding the initial funding cycle, 156 landowner projects, valued at \$885,626, remained unfunded and on the FRP “waiting list.”

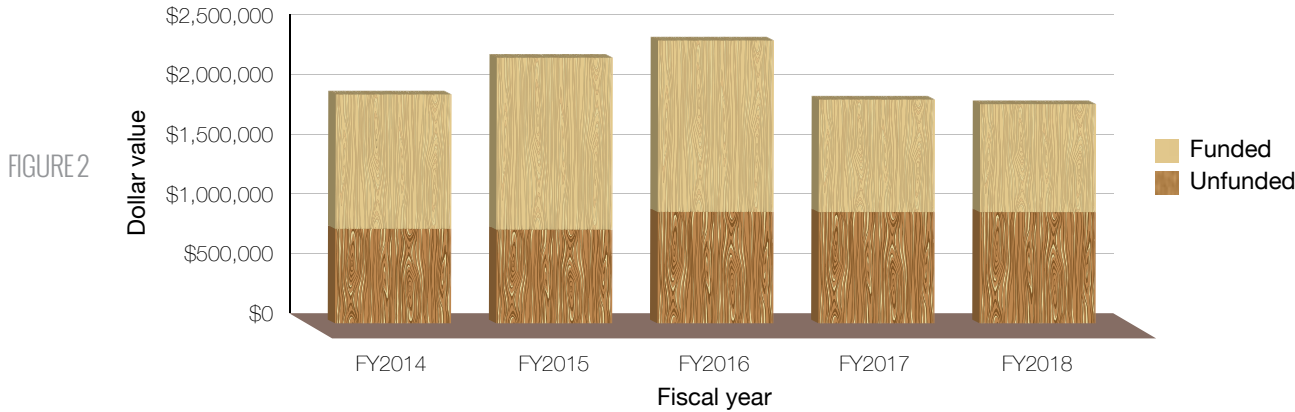
The table and figures below summarize the results of the initial allocation of FRP funds for the current and prior fiscal years. These metrics along with the budget information are used as benchmarks to evaluate the health of the FRP program.

Allocation of FRP funds for 2016, 2017 and 2018 fiscal years

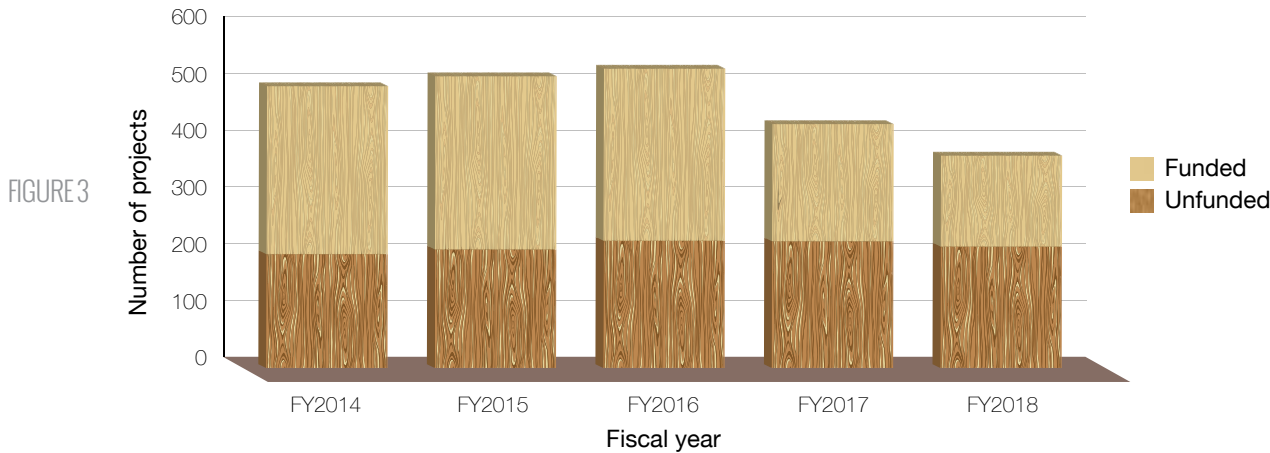
TABLE 2

	FY2016	FY2017	FY2018
# Applications Funded	218	217	208
\$ Funded	\$912,137	\$910,711	\$910,502
Balance to Slippage	\$1,093	\$662	\$400
# Applications Not Funded	295	201	156
\$ Cost-Share Need (Unfunded Applications)	\$1,406,022	\$923,216	\$885,626
# Days on File of Oldest Unfunded Application	436	462	442

Dollar value of funded and unfunded landowner projects by fiscal year



Number of funded and unfunded cost-share applications for landowner projects by fiscal year





“Without some of the assistance, they might be reluctant or not want to put their money back into reforestation and you leave a lot of good timberland idle.”

– Kevin Johnstone
Elliott Sawmilling Co.

“It’s important that we have a stable timber supply and that our forests are productive to support the existing industries and encourage new ones to come in.”

– Ken Stuart
Domtar





FRP STAFF

AT THE SOUTH CAROLINA FORESTRY COMMISSION



SCOTT PHILLIPS

Rural forestry programs manager

Office: (803) 896-8844 | **Cell:** (803) 667-1067 | **Email:** sphillips@scfc.gov

As the rural forestry programs manager for the SC Forestry Commission, Phillips provides oversight to the cost-share and technical assistance programs offered by the Commission for private landowners. Phillips received a bachelor's degree in forest resources from the University of Georgia, where he dual majored in forestry and wildlife management. He earned a master's degree in forest resources from Clemson University, where he specialized in forest business. Phillips has served as the forest renewal program manager for the Commission since 2008.

Phillips on assisting landowners: "Growing up on a farm in southeast Georgia, I developed strong ties to the land at an early age. These ties led me into my career as a Forester and drive me to always try to leave things better than I found them. Helping landowners to better manage their land is something I'm very passionate about and I am continually looking for opportunities to improve the assistance and services we provide to the forestry community in South Carolina."

DEBBIE KISER

Forest management administrative assistant

Office: (803) 896-8824 | **Cell:** (803) 360-3407 | **Email:** dkiser@scfc.gov

Serving as the forest management administrative assistant, Kiser provides assistance for all aspects of the Forest Renewal Program as well as other areas in the department. Her duties for FRP include maintaining the log for slippage, processing FRP applications and W-9 forms, and handling funding for the program throughout the year. Kiser began working for the Forestry Commission in 1996, serving as the program assistant for construction and property. She transitioned to her current role in forest management in 2012.

Kiser on assisting landowners: "I've learned so much about forestry from foresters and others at the Forestry Commission over the years, and that knowledge has been very helpful to me in performing my job duties. I came into this position with a mindset that we are one big team working together to help landowners, project foresters and consulting foresters throughout the FRP process. I enjoy this job, and enjoying what you do makes a big difference."



